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SEMI-ANNUAL REPORT

FOR THE PERIOD

1 January 1977 - 30 June 1977

OF THE

KOREAN SIMULATION MODEL

ADVISORY SERVICE

Contract Number AID/ta-C-1322

Agricultural Sector Analysis and
Simulation Projects
206 International Center
Michigan State University
East Lansing, MI. 48824

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Substantive Report

Michael H. Abkin
Principal Investigator

My previous semi-annual report [1] discussed in detail the nature of my activities under the Contract, progress made during that reporting period, and a work plan for the present reporting period. Therefore, and since my next report will be the final report of the project, the present report only briefly discusses progress made during the reporting period relative to the work plan proposed in [1] for each of the specific activities outlined in the Contract's "Statement of Work" (Article I.B.2). A work plan for the upcoming final period is also proposed. The reader is referred to [1] for more detail on the background and design of each area of activity. The final report will discuss much more fully the objectives of the Contract, progress made toward those objectives, and implications of and recommendations arising from the accomplishments of the project.

1. Further Model Development

a. Activities to date

Generalization and segmentation of the KASM3 program structure has been completed. The entire KASM system of models is now linked on the computer as interacting yet distinct modules. This structure greatly facilitates their use individually or in various combinations as required by the user. Included in the KASM system are:

- i. the population and migration model (POPMIG);
- ii. the crop technology change model (CHANGE);
- iii. the resource allocation and production model (RAP), which is composed of the farm resource allocation model (FRESAL) and the production accounting component (PRDAC);

- iv. the demand-price-trade model (DEMAND);
- v. the farm income accounting component (FRMAC);
- vi. the national economy model (NECON).

Testing and technical documentation of the DEMAND and NECON models, as well as of the linked system, were also completed during the reporting period. (Expenses for printing and publication of these documentations will not be charged to this Contract.)

b. Work plan

The basic development of the Korean Agricultural Sector Model (KASM), the Annual Grains Price Policy Analyzer (AGPPA) and the Grain Management Program model (GMP) is now complete. Any further modeling activities in KASM, GMP, AGPPA or new areas are now the responsibility of the NAERI staff. My involvement has shifted to one of technical assistance and advice, as discussed below. As a minimum, model development will continue to take place in response to policy analysis requirements. For example, work is planned to improve KASM's output of consistent supply-demand tables for livestock feed.

2. Incorporation of New Information

a. Activities to date

During the reporting period, data arrays were programmed into the resource allocation and production model of KASM for storage of relevant empirical time series. These can be used to initialize RAP in any year for which these data are stored. In addition, time-series data were gathered and entered into the GMP model to update that model's series through March 1977.

b. Work plan

- i. Program into NECON data arrays for storage of relevant empirical time series.
- ii. Work with Korean counterparts in the design and preparation of a data update instruction manual for KASM and GMP.

3. Use of Models for Policy Analysis

a. Activities to date

In April and May, analysis and recommendations were made for the MAF Food Bureau on the barley purchase price for the government buying period beginning on July 1. The annual grains price policy analyzer (AGPPA) was used for this activity. Since the analysis was entirely carried out by Korean counterparts with minimal input from me or other MSU personnel, this activity is discussed in item 5 below.

The proposed Fourth Five-Year Plan analysis, outlined in [1], was dropped as an activity for the following reasons:

- i. It was infeasible to complete the analysis and report in time for publication as a KASS Special Report under Contract 2975, as originally planned.
- ii. The leadership staff at NAERI changed, bringing concomitant changes in priorities.
- iii. MAF, NAERI and the MSU/KAPP project team placed higher priority on other activities for the MSU/KAPP team members.

A set of policy analyses using the KASM and GMP models was defined as a result of the MAF/KAPP Agricultural Development Policy Seminar held in early June (discussed below). These analyses, currently being carried out by MAF, NAERI and KAPP personnel and myself, include the following:

- i. An analysis of the requirements for increased capacities in food transportation, processing and marketing facilities to the year 1985, based on KASM projections of domestic production, farm and nonfarm demand, imports and exports, and carry-over stock levels. Included in the analysis are KASM projections of requirements for agricultural intermediate inputs, such as fertilizer, pesticides, machinery and animal feed.

- ii. An analysis of the proposed use of a system of target price subsidies for rice as an alternative to the present government grain management program as a means of income transfer to farmers. The GMP model was used to compare the implications of the proposed program with the results of current program for 1976 in terms of farm income and government deficits. KASM was used to make longer run comparisons to 1981.
- iii. An analysis, using the GMP model, of alternative government actions to deal with this spring's barley crop failure.

b. Work plan

- i. Complete initial work and discussions on the above analyses by the end of July. Further work on these issues is contemplated.
- ii. As additional opportunities arise, I will work with NAERI and KAPP staff in utilization of the models for policy analysis.

4. Technical Advice

a. Activities to date

Aside from my activities on model development and policy analysis, I served in a general technical advisory capacity in reference to:

- i. NAERI's proposal to establish its own batch computer terminal next year (the proposed move of the MAF Statistics Bureau, which has a batch terminal, to share NAERI's site did not take place);
- ii. In cooperation with KAPP short-term consultants, the use of the PAL/TSP/data bank package to manage a data bank system and interface it with the TSP for statistical analysis.

b. Work plan

I have no specific work plan for this activity for the remainder of the contract period beyond plans discussed under other headings.

5. Transfer of Responsibilities to Korean Staff

a. Activities to date

This topic is discussed as a broad interpretation of Article I.B.2.f. of the Contract's Statement of Work. It encompasses both in-service training and the dissemination in Korea and elsewhere of information on the KASS approach and models.

In-service training accomplishments during the reporting period and plans for the next period have been substantially influenced by the new chief of the KASS Division on NAERI (Dr. Joo Yong-Jae), installed in April after completing his Ph.D. program in agricultural economics at Louisiana State University. Coming in "cold" as he has, Dr. Joo has expressed not only great interest in the KASS approach and models but also the ability and determination to grasp the concepts and techniques of the approach and the simulation models.

As discussed above, most of my time went into preparing the KASS models for transfer and into writing the technical documentations for use as training and reference materials for the Korean staff. These are now completed. As the documentations were completed, draft copies were distributed to each member of the NAERI KASS team. The feedback I have received so far is that they have not only been read but have been of substantial help in increasing understanding of and familiarity with the models. They have been especially helpful to Dr. Joo in his orientation to our work.

A key step taken during the reporting period was the tentative assignment of personnel to the study areas defined in [1, pg. 12]. These assignments are as follows:

a. population and off-farm migration

-- Ahn Chang-Bok

- b. food consumption, including demand, price and trade aspects
-- Lee Sang-Won
- c. crop and livestock production
-- Lee Sang-Won, Joo 'Yōng'-Jae and Ahn Chang-Bok
- d. linkages between agriculture and the rest of the economy
-- Whang Hong-Do
- e. grain management program
-- Joo Yong-Jae and Ahn Chang-Bok

In addition, Dr. Joo and Mr. Ahn have overall responsibility for maintenance and utilization of both KASM and the GMP.

Therefore, with the completion of the documentations and the assignment of personnel to subject areas, the groundwork has been laid for intensive training during the remainder of the contract period.

As indicated in my previous semi-annual report, NAERI's use of the annual grains price policy analyzer (AGPPA) continues to demonstrate progress in the acceptance by the NAERI staff of responsibility for continued development and utilization of the models. In April and May, Lee Sang-Won -- teamed up with the new division chief, Joo Yong-Jae -- performed an analysis, at the request of MAF's Food Bureau, of the upcoming government barley purchase price decision.

For this analysis, Mr. Lee examined two of AGPPA's basic assumptions: 1) that average private market prices could be acceptably approximated by a proportional relationship to government prices; and 2) that the computation of the consumer price index could be simplified by assuming no relationship with government grain management deficits. A look at the historical data confirmed the reasonableness of the first assumption, but the second was modified by a relationship derived by a professor at Sogang University.

Eighteen "runs" of AGPPA were defined and executed based on inflation, production cost and farm income considerations. In addition, supply responses were estimated and used in the analysis.

The analysis also took account of the effects of this spring's barley crop failure (estimates range up to 50% loss) and how the government's purchase price could serve as a compensatory measure.

The results indicated a quite substantial price increase would be desirable from a farm income, production cost, supply response standpoint. We may never know how or even whether MAF used these results in negotiating the purchase price with other ministries, but the price increase finally agreed upon was almost twice that initially proposed by the Economic Planning Board, which is primarily concerned with the inflationary impacts of high grain prices and government grain management deficits. This leads us to believe that the analyses provided MAF the evidence necessary to effectively argue the case for a higher price increase to partially compensate farmers for their production losses.

Dissemination of information on the KASS approach, models and analytical results to Korea's university, research and agricultural decision making communities is another key component of transference activities. In this regard, two events during the reporting period are worthy of note.

In early May, MAF's Director-General for Planning and Management organized and chaired a meeting of representatives of the Ministry's statistical and research units as a means of coordinating their activities. About ten agencies were represented. I attended as part of NAERI's delegation. About 25% of the discussion was centered around the KASS models and their potential for policy analysis. Almost all of that was in Korean and led by the NAERI staff in attendance. The major conclusions of that discussion were 1) that most potential users of the KASS models had heard of them but knew little else about them, and 2) a recommendation by the chairman that NAERI conduct a series of seminar/workshops to remedy the situation.

An Agricultural Development Policy Seminar was held 31 May - 3 June, sponsored by MAF and the MSU KAPP project. Brought together were participants from MAF, universities, NAERI and other ministries to discuss and debate currently emerging issues in farm price and income transfer policies, self-sufficiency and nutrition policies, and livestock policies. An additional session discussed the KASS/KAPP methodological approaches to policy analysis, for which I wrote a paper /2/. The seminar program is attached as Appendix 1.

From the point of view of this Contract (and many other points of view as well), the seminar was a success. In regard to the KASS models, numerous opportunities arose, particularly during our methodology session, to discuss their potential for policy analysis utilization and to dispel misconceptions about them. The models are now increasingly being used by MAF and NAERI personnel for analyses of policy issues addressed at the seminar (see above). In addition, broader interest at MAF has been expressed in further applications. Finally, and very importantly, the NAERI Director, in his official summary winding up the seminar, publically recognized the importance of the KASS approach and models and accepted personal responsibility for promoting and supporting their continued maintenance and utilization.

b. Work plan

- i. Conduct an intensive training program for the personnel assigned to each model of the KASM system and the GMP model.
- ii. Co-author, with NAERI staff, a paper for a regional sector analysis modeling seminar sponsored by the Agricultural Development Council, to be held in the Philippines in November.
- iii. Discuss with AID/W TAB representatives (due in Korea in August) and Korean officials the proposed regional sector analysis network.

6. Management Audit

During the reporting period, a regional AID auditor conducted, at AID/W request, a management audit of activities and progress under the Contract. He was also requested to investigate the level of logistic support supplied me and my family by the Mission and Embassy. The final auditor's report, from AID/W, is included as Appendix 2 to this report. There is no mention in that report of the logistic support aspect of the audit. A memo I wrote for USAID/K in response to the audit report corrects factual errors of the latter and discusses progress made since the auditor's visit. On the basis of that memo (included as Appendix 3), USAID/K recommended that Recommendation 1 of the audit report be closed.

APPENDIX 1

PROGRAM FOR AGR. DEVELOPMENT POLICY SEMINAR

May 31, Tuesday

- 11:00 Bus leaves from United Govt. Bldg.
- 11:30-12:00 Registration
- 12:00-13:30 Lunch
- 13:30-14:30 Opening Ceremony,
 - Opening Remarks, Minister Choi
 - Address, G.E. Rossmiller
 - Seminar Procedural Matters
- 14:45-15:45 Presentations
 - Policy Issues in Korean Agriculture in the 1980's,
 G.E. Rossmiller
 - Korean Agricultural Development, Mr. Sohn
- 15:45-17:45 Discussion

June 1, Wednesday

- 09:00 Bus leaves from United Govt. Bldg.
- 09:40-11:00 Presentations
 - Food and Nutrition Policies in Agricultural
 Development, H.C. Kriesel
 - Importance of Food Self-Sufficiency in Korean
 Economic Development, Mr. Yun, Ilang Ryul
 - Government Finance and Food Grain Management
 Special Fund, Mr. Jo, Hung Je
- 11:00-13:00 Discussion
- 13:00-14:30 Lunch
- 14:30-15:30 Presentations
 - Development of the Livestock Industry with the
 Best Use of National Resources, Mr. Kim, Kang Sik
 - Comparative Advantages in Livestock Production,
 Mr. Lee, Gee Wook
- 15:30-17:30 Discussion

June 2, Thursday

09:00 Bus leaves from United Govt. Bldg.

09:40-10:40 Presentations

- Basic Direction of Agricultural Marketing and Price Policies, Mr. Kim, Ju Ho
- Agricultural Price Policy and High Economic Growth, Mr. Kim, Jae Ik

10:40-12:40 Discussion

12:40-14:00 Lunch

14:00-15:30 Presentations

- Agricultural Growth and Rural Income, Mr. Kim, Sung Ho
- Location of Industrial Complexes and Local Decentralization, Mr. Yoo, Ho Moon
- Saemaul Factory and Nonfarm Income, Mr. Kim, Yong Hak

15:30-17:30 Discussion

19:00-20:00 Reception hosted by the Minister

June 3, Friday

09:00 Bus leaves from United Govt. Bldg.

09:40-11:30 Presentations

- Utilization of KASS Models for Agricultural Planning and Policy Decision Making in Korea, M.H. Abkin
- Agricultural Outlook and Statistics for Policy Decision Making, D.W. Culver
- Management and Evaluation of Agricultural Projects, M.E. Hanratty

11:30-13:00 Discussion

13:00-14:30 Lunch

14:30-15:30 Closing Ceremony

- Evaluation and Recommendations, Mr. Kim, Sung Ho
- Closing Remarks

UNITED STATES GOVERNMENT

APPENDIX 2

Memorandum

TO : AA/TA, Mr. Curtis Farrar
Director, USAID/Korea

DATE: May 31, 1977

FROM : AAG/W, *Rolland J. Deschambault*
Rolland J. Deschambault

SUBJECT: Memorandum Audit Report No. 77-152
Korean Agricultural Simulation Model
Contract AID/ta-C-1322, Michigan State University

The Agency and Michigan State University (MSU) on June 30, 1976 signed a \$98,000 cost-reimbursable contract to provide 18 man-months of technical services to the computerized Korean Agricultural Simulation Model project. The project is under the direction of the Korean Ministry of Agriculture and Fisheries.

At the request of AA/TA/AGR, we made an initial, limited scope project progress review to determine if the contract requirements are being fulfilled. Assistance was provided by the project manager in TA/AGR, and the contract officer here in AID/W, and field work was performed by AAG/Manila.

Our conclusion is if the current momentum is maintained the contract should be completed by the termination date, December 31, 1977. But it also appears that the project could be jeopardized if adequate support by the Republic of Korea Government (ROKG) cannot be assured.

The contractor's ability to complete his work on time depends on one key participant returning from U.S. training to Korea before December 31, 1977. This participant will not finish his U.S. training on the originally scheduled completion date of September 30, 1977 to provide the planned 90-day overlap with the contract technician. The participant was extended from September 30, 1977 to January 31, 1978 and the Koreans are now requesting an extension of the contract.

The purpose for the overlap is to enable the contract technician to familiarize the Korean counterpart/trainee with the new data base for the computer model.

The present staff consists of four Korean professionals: One is in training, another is a computer specialist, while two are skilled in agricultural economics. According to the MSU contract technician, the Korean computer specialist is quite familiar with the computer models. At one point, with very little help from the MSU technician, he improved one of the working models constructed by the MSU contractor. Also, there is another Korean staff member (a former MSU trainee) who has received some instruction from the technician and has demonstrated a keen interest in overall computer programming.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

Perhaps an acceptable alternative to extending the MSU contract would be for the contract technician to time his return to MSU before the contract completion date. Then he could update the trainee on his contributions while preparing his final report.

Another area of concern is the absence of ROKG project support. We found that:

(1) The ROKG does not have any formalized plans to finance computer services once the contract is completed. Maintenance of the model requires use of a computer at an average monthly cost of \$1,000. Under this contract, \$15,000 was provided for computer services from the Korean Institute of Science and Technology. The Koreans said they will provide a budget for computer services when the MSU contract expires. But a specific date has not been set, nor were officials clear on future growth of the Division using the computer stating that a "growth decision would be based on budgetary priorities".

(2) The Agricultural Sector Analysis Division has the primary responsibility for maintaining the models designed by the contract technician. Recently, a new division chief was named by the Ministry of Agriculture and Fisheries. According to the contractor the new division chief is unfamiliar with the development models. This introduces a completely new time-consuming education aspect to the contractor's responsibilities.

(3) The contractor claims the current trained manpower level is not sufficient to insure...

"long-term viability of the systems model approach in Korean public agricultural decision making. Also essential is an institutional structure which promotes and supports the conduct of research and analysis as bases for decision making..." 1/

While there are currently four professionals on board, the staffing pattern calls for five others to complete the Computer Facilities staff. The Research Analysis staff consisting of seven professionals brings the total to sixteen people.

(4) A secretarial staff was not provided.

1/ Contractor's Report, 6-1-76 thru 12-31-76

Recommendation No. 1

USAID/Korea, in conjunction with parties concerned, address the conditions discussed in the report, namely counterpart overlap and ROKG support.

The contract is a cost reimbursable type with a ceiling of \$98,379. AID disbursed \$16,394 to cover the Contractor's billings for the period July 31, 1976 through December 31, 1976, and the undisbursed balance is \$81,985. (See Exhibit A.)

Michigan State University

Contract AID/ta-C-1322

July 1, 1976 thru December 31, 1976

	<u>Line Items</u>	<u>Budget</u>	<u>Disbursed</u>
I	Salaries	\$ 42,120	\$ 6,078
II	Overhead	12,219	1,519*
III	Fringe Benefits	6,318	1,635
IV	Travel & Transportation	19,122	3,974
V	Other Direct Costs	16,200	1,468
VI	Allowances	<u>2,400</u>	<u>1,720</u>
	Totals	<u>\$ 98,379</u>	<u>\$ 16,394</u>

*Field O/H Only.

MICHIGAN STATE UNIVERSITY

(Contract AID/ta-C-1322)
(Korean Simulation Model Advisory Services)

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APPENDIX 3

Jack Miller, PRM

June 15, 1977

Mike Abkin, MSU

Memorandum Audit Report No. 77-152 from AAG/W

The subject report recommends that "USAID/Korea, in conjunction with parties concerned, address the conditions discussed in the report, namely counterpart overlap and ROKG support."

With respect to the counterpart overlap with Park Sung-Joo, there are a couple of factual errors in the conditions stated in the subject report.

First, no overlap is explicitly or implicitly called for in Contract AID/ta-C-1322. Therefore, no contractual obligation exists to provide it. MSU's project proposal for the Contract, however, did state that "the 18-month period would allow for a 3-4 month overlap between the returning Korean systems scientist and the MSU systems scientist which can be useful for in-service training and transfer of responsibility." This is mentioned as a beneficial by-product of the 18-month period of the Contract rather than as its primary justification, which was to provide "systems science continuity" between the March 1976 departure of the KASS team and the September 1977 return of the Korean systems scientist.

Furthermore, it is factually incorrect to state that "the Koreans are now requesting an extension of the contract" to provide that overlap. Various options were considered by MAF, NARI, USAID/K and myself and it was concluded that the only feasible and mutually acceptable alternative was to maintain the present schedule and forgo the overlap. To leave early and overlap at MSU, another option stated in the subject report, would detract from the continuity objective to which the Koreans attach greater priority.

MAF and NARI have expressed (to AID/W, USAID/K and MSU) an interest in AID providing some mechanism for systems science consulting services from time to time as needed after the

scheduled completion of the Contract at end of 1977. No formal request has as yet been made, however.

Incidentally, the Korean systems science trainee is still officially scheduled to return in September 1977. No formal extension request has as yet been made, much less approved.

With respect to ROKG project support, the subject report enumerates four items under the heading of "absence of ROKG project support." Before commenting on each of the four items, I would like to correct the misconception that support has been "absent."

MSU's involvement in Korea since 1971, including the present Contract 1322, has been very much a joint effort, with the full support and cooperation of our Korean counterpart institutions -- NAERI and MAF -- in both the planning and execution of our activities. In specific regard to my Contract, support has been and is being provided in the form of a) counterpart manpower for research, analysis and computer programming, b) computer services for operational (as opposed to developmental) use of the models, and c) office space and equipment.

(1) The first support item mentioned is the finance of computer services after the period of the Contract. This is indeed an essential item. With 1978 budget requests now being prepared, this is an appropriate time to discuss with NAERI and MAF officials the financial requirements for computer services to maintain, develop and use the simulation models. Also relevant are the budgetary implications for the KASS work of NAERI's request for a batch terminal. However, once the Contract is completed, USAID's and MSU's influence will and should diminish. In general, since the auditor's visit to Korea, we have received strong indications (e.g., from the Director of NAERI in his summary report at the Agricultural Development Policy Seminar) that MAF and NAERI are readily and unequivocally committing themselves to the KASS approach, which includes development and use of the simulation models.

(2) Again, since the auditor's visit, the new chief of the Agricultural Sector Analysis Division has proven to be not only a very quick study but also interested and capable of understanding

and using the models. There is, therefore, no "support problem" in this area for USAID/K to address itself to.

(3) The subject report quotes out of context my semi-annual report on the issue of trained manpower, giving a completely wrong impression of what I was saying in that quote. Indeed, in that section of my report I was not discussing manpower but rather the importance of an appropriate institutional environment--i.e., that trained manpower alone was not sufficient for viability, but that institutional requirements must also be met. While it is true the current level of trained manpower may be inadequate, improvements are expected in the long run. The real problem lies in the government's present inability (because of civil service regulations and salary levels) to attract and keep highly qualified people. It's not clear what USAID/K, or indeed any outside agency, can do in this regard beyond pointing out the problem, which the ROKG is already aware of.

(4) Secretarial services are provided mainly by the NSU secretary (not supported by this Contract) located in the Embassy, with minimal supplementary services provided by IMAF and NAERI staff. Additional secretarial staff (Korean or U.S.) is not needed.

cc: Rossmiller
Fulaski

References

- [1] "Semi-Annual Report for the Period 1 July 1976 - 31 December 1976 of the Korean Simulation Model Advisory Service," Contract No. AID/ta-C-1322.
- [2] "Utilization of KASS Models for Agricultural Planning and Policy Decision Making in Korea," Agricultural Development Policy Seminar, Seoul, 31 May - 3 June 1977.

Administrative Report

Bert M. Pulaski
Administrative Officer

ADMINISTRATIVE REPORT

Budget and Recapitulation of Expenditures

The provisions of Contract AID/ta-C-1322 have provided funding for the continuance of the project period to 31 December 1977. This budget currently is scheduled to support a very limited on-campus component and Dr. Michael Abkin, the principal investigator.

<u>Budget Schedule</u>		
Line Item	Actual/Est. Expenditures Fm 6-30-76 To 6-30-77	Firm Budget Fm 6-30-76 Tc 12-31-77
Salaries	\$25,860	\$42,120
Overhead	7,100	12,219
Fringe Benefits	6,651	6,318
Travel/Transportation	4,697	19,122
Other Direct Costs	13,131	16,200
Allowances	<u>1,855</u>	<u>2,400</u>
TOTAL	\$59,294	\$98,379

Administrative Relations with USAID/Korea and AID/Washington

USAID/Korea

The cooperation of USAID/K in providing support and advice in time of need is acknowledged. Particular recognition should go to Mr. Jack Miller, as his cooperation and inputs to the project have been most appreciated, not only by MSU personnel but MAF/ROKG as well.

AID/Washington - TAB Office

The TAB has taken a continuous interest in this project since its inception. However, the manner in which a recent audit was requested and held on this

project is of some concern to the MSU Field Project Leader, as well as MSU administrators. The audit was requested, as we understand it, by AID/TAB/agr without the usual prior notification to either the Field Project Leader or the MSU On-Campus Coordinator. The audit uncovered no discrepancies or problems not already known and being dealt with by MSU, MAF and USAID/K Project Managers. It did, however, take valuable field project time by MSU, USAID/K and MAF to cooperate in the audit, to correct factual errors in the report and to answer the findings.